

Message Text

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PAGE 01 ANTANA 00075 170809Z
ACTION AF-10

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E.O. 11652: N/A (DECONTROL UPON RECEIPT)
TAGS: EINV EIND EFIN MA
SUBJECT: INVESTMENT CLIMATE STATEMENT FOR MADAGASCAR
REF: 77 STATE 244738

1. SUMMARY. STATEMENT REQUESTED REFTEL FOLLOWS. THIS TELEGRAM
"LOU (DECONTROL ON RECEIPT)" SO THAT PUBLISHED STATEMENT WILL
NOT BE DIRECTLY ATTRIBUTED TO US EMBASSY. END SUMMARY.

2. THE INVESTMENT CLIMATE IN MADAGASCAR REMAINS UNCERTAIN.
IMMEDIATELY AFTER COMING TO POWER IN JUNE 1975, PRESIDENT
RATSIRAKA NATIONALIZED ALL BANKS, INSURANCE COMPANIES AND
MAJOR TRADING COMPANIES. IN 1976, HE NATIONALIZED ALL
FOREIGN OIL COMPANIES. WHILE A FEW FIRMS WERE NATIONALIZED
AS A RESULT OF NEGOTIATED SETTLEMENT, MOST WERE TAKEN
UNILATERALLY, AND IN MOST CASES NO COMPENSATION HAS BEEN
AGREED TO. IN LATE 77, PRESIDENT RATSIRAKA ANNOUNCED THAT
ONLY COMPANIES INCORPORATED IN MADAGASCAR AFTER INDEPENDENCE
(JUNE 1960) WOULD BE COMPENSATED, EXCEPT FOR SPECIAL CASES.

3. AS A RESULT OF THE OIL COMPANY NATIONALIZATION US PRIVATE
INVESTMENT IN MADAGASCAR IS INSIGNIFICANT.

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PAGE 02 ANTANA 00075 170809Z

4. PRESIDENT RATSIRAKA HAS NOT RULED OUT FUTURE FOREIGN
PRIVATE INVESTMENT BUT HAS MADE IT CLEAR THAT HE INTENDS TO
BUILD A SOCIALIST ECONOMY AND THAT FOREIGN PARTNERS IN NEW
INVESTMENT MAY NOT HOLD MAJORITY OWNERSHIP. DUE PARTIALLY
TO THESE GOVERNMENT POLICIES, THERE HAS BEEN NO SIGNIFICANT
FOREIGN PRIVATE INVESTMENT IN MADAGASCAR SINCE 1972, ALTHOUGH
IT IS ANTICIPATED THAT THE FIRST SUCH EXAMPLE MAY BE ANNOUNCED

IN THE FIRST HALF OF 1978.

5. AGAIN, DUE PARTIALLY TO GOVERNMENT POLICIES, THE ECONOMY OF MADAGASCAR HAS BEEN ESSENTIALLY STAGNANT SINCE 1972, ECONOMIC GROWTH BARELY KEEPING PACE WITH POPULATION GROWTH. HOWEVER, PRESIDENT RATSIRAKA'S GOVERNMENT HAS RESTORED A LARGE MEASURE OF POLITICAL STABILITY IN THE LAST TWO YEARS AND THIS MAY BE OF SOME ENCOURAGEMENT TO POTENTIAL INVESTORS.

6. AT PRESENT THERE IS NO INVESTMENT CODE, BUT IN PRINCIPLE, THERE ARE SEVERAL INVESTMENT INCENTIVES WHICH THE GOVERNMENT MAY GRANT TO POTENTIAL INVESTORS ON A CASE-BY-CASE BASIS. AS THE GOVERNMENT COMES TO REALIZE ITS POLICIES ARE DISCOURAGING PRIVATE INVESTMENT, THESE POLICIES MAY GRADUALLY BE AMENDED.

7. PROBABLY THE MOST ATTRACTIVE INVESTMENT PROJECTS WILL BE THOSE WHERE THE FOREIGN PARTNER IS ABLE TO OFFER SOME TECHNICAL, COMMERCIAL OR MARKETING EXPERTISE NOT OTHERWISE AVAILABLE TO MADAGASCAR.

8. AS TO INFRASTRUCTURE, MADAGASCAR'S ONE MAJOR PORT, TAMATAVE, IS OFTEN SUBJECT TO LONG DELAYS. IT IS CONNECTED TO THE CAPITAL AND CENTRAL HIGHLANDS BY A METER GAUGE RAILROAD WHICH FREQUENTLY EXPERIENCES DERAILMENTS DUE TO HEAVY RAINS. MADAGASCAR'S POPULATION IS SCATTERED THROUGHOUT THE RUGGED LIMITED OFFICIAL USE

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PAGE 03 ANTANA 00075 170809Z

TERRAIN OF THE WORLD'S FOURTH LARGEST ISLAND AND MANY COMMUNITIES ARE ALMOST COMPLETELY ISOLATED FROM THE REST OF THE COUNTRY, ESPECIALLY IN THE RAINY SEASON. HOWEVER, IN ADDITION TO ITS INTERNATIONAL FLIGHTS, AIR MADAGASCAR PROVIDES EXCELLENT SERVICE TO ALL MAJOR AND SEVERAL MINOR CITIES WITH A FLEET OF TWO JETS, SIX SMALL TURBOPROP TWINS AND SEVERAL LIGHT AIRCRAFT. SMITH

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